World Bank forecasts slowdown in global economic growth

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9 June 2011

The World Bank released its latest *Global Economic Prospects* report Tuesday, forecasting slower economic growth the rest of this year and next. The World Bank is projecting a deceleration of gross domestic product (GDP) gains in the US, the euro zone, and the developing economies of Asia and Latin America compared to 2010. The only region where it foresees faster growth is Sub-Saharan Africa.

While the World Bank attempts to put the best possible spin on its forecast, suggesting that there will not be a return to negative growth (a so-called "double dip" recession) and predicting an eventual acceleration, the figures released by the agency portend a growth of unemployment, poverty and social deprivation across the planet.

In the US, Europe and Japan - where the so-called "recovery" has been characterized by anemic growth following the collapse of 2008 and early 2009, sustained high unemployment, and brutal attacks on the living standards of the working class - even slower GDP growth will mean a deepening of the slump.

The bank estimated that the world economy will expand by 3.2 percent this year, down from 3.8 percent in 2010. Global growth in both 2012 and 2013 is expected to edge up just 3.6 percent - below the 2010 rate.

The US economy is expected to grow a dismal 2.6 percent this year, compared with 2.8 percent in 2010, and remain below 3 percent at least through 2013. It takes a sustained growth rate of at least 3 percent to begin to make a dent in the near-double-digit official US unemployment rate.

The growth of developing economies is expected to slow to around 6.3 percent a year through 2013, from 7.3 percent last year. The bank forecasts that in so-called "high-income" countries, growth will slow to 2.2 percent this year from 2.7 percent in 2010, before picking up to 2.7 percent and 2.6 percent in 2012 and 2013 respectively.

Japan's economy, recovering from its March tsunami and earthquakes, is forecast to not grow at all. Growth in the euro area is forecast to stay below 2 percent through 2013.

The World Bank report's projections are, if anything, unduly optimistic. They do not take into account data from May, which were almost universally negative.

Last Friday's US employment report for May showed a virtual collapse of job-creation, with a mere 54,000 net increase in US payrolls, less than a quarter of the previous month's total and the lowest figure in eight months. May saw an increase in the number of unemployed workers to the highest level so far this year and a sharp rise in the number of long-term jobless. The official unemployment rate rose to 9.1 percent, with nearly 25 million people counted as either out of work or underemployed.

The disastrous jobs report followed surveys showing sharply lower home prices and sales, a falloff in manufacturing, declines in auto sales and consumer spending, and a drop in consumer confidence.

Reports from Europe, China and India in May likewise documented slower manufacturing activity and economic growth.

Only hours before the release of the World Bank survey, US Federal Reserve Chairman Ben Bernanke delivered a gloomy speech on US economic prospects to a meeting of the American Bankers Association in Atlanta, Georgia. He began by acknowledging that US economic growth so far this year has been slower that the Fed's projection. While saying the US is experiencing a "recovery" at a "moderate pace," he admitted that it is "frustratingly slow from the perspective of millions of unemployed and underemployed workers."

Bernanke seemed to backtrack on previous assurances that the recovery was secure, declaring, "Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established."

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On the jobs situation, Bernanke was relatively frank, admitting it "remains far from normal." He cited one statistic—aggregate hours of production workers—as a stark indicator of the depths of the jobs crisis. This "comprehensive measure of labor input that reflects the extent of part-time employment and opportunities for overtime as well as the number of people employed," he explained, "fell, remarkably, by nearly 10 percent from the beginning of the recession through October 2009."

What was particularly significant was the fact that this measure remains 6.5 percent below its pre-recession level. Bernanke pointed out that this drop was worse than the decline in aggregate hours worked in "the deep 1981-82 recession."

The Fed chairman noted an increase in inflation—with consumer prices rising at a 3.5 percent annual rate—but reassured his audience of bankers that falling wages and declining unit labor costs would keep price increases under control. "Notably," he said, "because of the weak demand for labor, wage increases have not kept pace with productivity gains. Thus the level of unit labor costs in the business sector is lower than it was before the recession."

This was tantamount to an endorsement of the policy of his audience of hoarding trillions of dollars in cash from record profits rather than hiring workers, so as to force down wages.

Bernanke signaled that the Fed would, as planned, allow its program of $600 billion in Treasury bond purchases (dubbed quantitative easing II) to lapse at the end of this month and made clear that the central bank would continue to keep short-term interest rates near zero.

As far as policies to address mass unemployment, Bernanke had nothing to offer. "In this context, monetary policy cannot be a panacea," he said. Instead, he repeated his call for austerity and deficit-reduction, cautioning, however, that a plan to slash spending should be put in place now but implemented in the medium and long term rather than immediately.

Bernanke's grim picture of the labor market was confirmed Tuesday by a new report from the Labor Department showing that the US had 3 million job openings at the end of April, down from March's 3.1 million vacancies. In April, there were roughly 4.6 jobless workers for every opening.

Underscoring the grim prospects for the US economy, the *Wall Street Journal* on Wednesday reported that Charles Evans, the president of the Federal Reserve Bank of Chicago, told the newspaper that he was lowering his projections for US economic growth from 4 percent to, at best, 3.25 percent in 2011 and 3.75 percent in 2012.

Also on Wednesday, the Fed's regional "Beige Book" survey for the first time this year reported a slowdown in economic growth in four of the bank's 12 districts—New York, Philadelphia, Chicago and Atlanta.

The Obama administration, acting as the direct instrument of Wall Street, is exploiting the economic crisis to drastically lower the wages, conditions and living standards of the American working class. This was underscored in Obama's joint press conference with German Chancellor Angel Merkel on Tuesday, at which he downplayed the significance of the May employment report, dismissed the possibility of a double dip recession, and reaffirmed his pro-corporate policy.

Obama said his answer to the jobs crisis was to make American corporations "more competitive with the emerging economies" and to get "a handle on our debt and deficit"—in other words, force American workers to work harder for less and gut basic social programs such as Medicare and Medicaid.

This is the substance of the administration's negotiations with the Republicans to slash trillions of dollars in social spending as part of a deal to raise the federal debt limit. On Wednesday, Fitch Ratings weighed in on behalf of the big banks to warn that it would put US debt on watch for downgrade in early August if no such deal was reached by then.

It joined its bigger ratings counterparts in threatening to downgrade US government bonds, Standard & Poor's having made a similar warning in April and Moody's having issued it own last week.

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